Dialog Group (DLG MK)

1QFY26: Double Cheers On Profit And Storage Expansion

BUY (Maintained)	
Share Price	RM1.90
Target Price	RM2.58
Upside	+35.8%

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Highlights

- **1QFY26 core profit deemed above expectations.** A spectacular showing from the international business and downstream operations recording profit position suggests there are no more major legacy EPCC losses. We exclude the RM25m unrealised forex gain recorded in the 4QFY25 JV that was reversed this quarter, likely related to the commercial resolution of PT2SB (as per Vopak).
- **Locking in conditional LTSA for BP Singapore, a repeat customer, marks a true unfolding of its expansion catalyst (RM0.45/share).** Amid potentially rising competition (including Maharani Energy Gateway and Karimun in Indonesia), Dialog Group's (Dialog) ability to lock in a further expansion of storage capacity dedicated to BP, from 0.4m cbm to 1m cbm in capacity, signals confidence that its Phase 3 PDT remains viable and competitive. That said, we are cautiously optimistic pending guidance for key metrics such as capex. Also, the EPCC for the new terminal will only commence from May 26 at the earliest, subject to stringent conditions such as license approvals. Still, we upgrade our forecasts by 4-12%. Maintain BUY and target price to RM2.58.

1QFY26 Group Results

Year to 30 Jun (RMm)	1QFY26	qoq % chg	yoy % chg	Comments Note: Vopak's accounts are Year to 31 Dec
Revenue	657.0	8.0	3.6	
- Malaysia	433.4	27.1	13.7	Completion of Singapore projects was a factor behind RM6m PBT
- Overseas	223.6	(16.4)	(11.7)	under "Other Asia" region, vs RM8m loss one year ago
JV/associates	61.2	(34.3)	(48.0)	Due to reversal of RM25m forex gain recorded in 4QFY25
Finance costs	-13.3	5.7	4.0	Thailand production fell to 1,800-1,900 boepd
PBT	161.0	(11.2)	3.2	EBITDA of RM189m (1QFY25: RM126m)
- Malaysia	139.7	(18.1)	(5.0)	
- Overseas	21.3	98.7	139.3	Fabrication projects doubled PBT from New Zealand yoy to RM6m
PBT margin (%)	24.5%	-5.3%	-0.1%	
Tax	(29.5)	0.0	-	
Net Profit	140.0	(5.0)	(7.3)	
Core Profit	163.0	29.3	22.5	**Exceptional item (EI): RM25m forex (JV/associate)**

Source: Dialog Group

Analysis

- **1QFY26 core profit comprised 32%/30% of our/consensus forecasts.** Despite weaker upstream contribution yoy on lower oil prices, the positive deviation was a spectacular profit showing from the international business especially from New Zealand and Other Asia regions. The downstream segment was in a profit position, suggesting there are no more major legacy EPCC losses. An unrealised forex gain of RM25m recorded in 4QFY25 for a JV storage terminal was reversed in 1QFY26. This exceptional item (EI) is consistent with our 4QFY25 EI assessment.

Key Financials

Year to 30 Jun (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	3,152	2,502	2,158	2,171	2,302
EBITDA	788	550	699	701	803
Operating profit	455	220	331	305	381
Net profit (rep./act.)	580	304	545	561	549
Net profit (adj.)	595	456	545	561	549
EPS	9.5	7.2	8.7	8.9	8.7
PE	20.1	26.5	22.0	21.3	21.8
P/B	2.0	2.1	2.0	1.9	1.8
EV/EBITDA	11.3	15.9	12.1	12.3	10.9
Dividend yield	2.0	1.5	1.8	1.9	1.8
Net margin	18.4	12.0	25.3	25.9	23.8
Net debt/(cash) to equity	2.2	n.m.	n.m.	0.5	1.7
Interest cover	12.2	11.3	13.8	12.7	13.0
ROE	13.9	7.4	12.9	12.7	12.0
Consensus net profit	-	-	539	580	590
UOBKH/Consensus (x)	-	-	1.01	0.95	0.93

Source: Dialog Group, Bloomberg, UOB Kay Hian

Stock Data

GICS Sector	Energy
Bloomberg ticker	DLG MK
Shares issued (m)	5,642.6
Market cap (RMm)	10,389.0
Market cap (US$m)	2,515.0
3-mth avg daily t'over (US$m)	7.4

Price Performance (%)

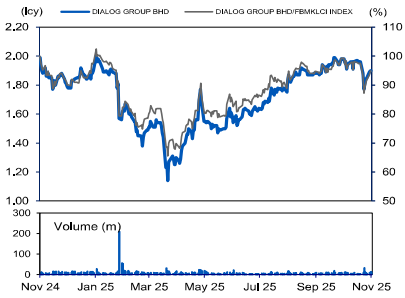
52-week high/low RM2.08/RM1.13

1mth	3mth	6mth	1yr	YTD
(6.1)	10.5	10.2	(7.5)	(0.5)

Major Shareholders

	%
EPF	18.6
Ngau Boon Keat	18.3
Azam Utama	7.6

Price Chart



Source: Bloomberg

Company Description

Dialog provides engineering, procurement, construction and commissioning (EPCC) services and plant maintenance services. The company also owns O&G tank terminals, while marketing specialty chemicals and equipment. Dialog has joint operatorship of three storage terminals with Royal Vopak (Vopak), which is the world's largest independent storage player.

- **JV/associate performance on track.** Excluding this EI, normalised JV/associate income at RM86m would be similar or slightly higher vs the normalised RM70m-80m base in the past few quarters. This was also consistent with Vopak's recent review that the oil hub terminals still benefitted from upward repricing during contract renewal. However, the onshore upstream concession in Thailand continued to show declining JV profit to RM5m (vs RM7m qoq). Production rates fell to a 1,800-1,900 boepd base, vs 1,900-2,000 boepd in 2024 and 2,700 boepd in 2021 (during the acquisition).
- **Locked in a conditional storage expansion in Phase 3 of PDT, for repeat customer BP Singapore.** Phase 3 of Pengerang Deepwater Terminals (PDT) currently houses 0.43m cbm of storage capacity for BP Singapore. The anchor customer signed a long-term storage agreement (LTSA) for the 18 storage tanks for refined products, which commenced operations in Mar 21. Since then, factors such as Malaysia's political uncertainties, the COVID-19 pandemic and (more recently) cost escalation, no other offtakers were secured. On 18 Nov 25, BP Singapore again signed a conditional LTSA to add 0.61m cbm of storage capacity, for both refined products and biofuels. By mid-2028, up to 1m cbm of storage (across 48 tanks) will be dedicated for BP Singapore.
- **We are cautiously positive on this expansion...** The development is expected as part of the two storage projects in our RM0.45/share expansion catalyst, the other being a dedicated capacity for ChemOne (though it is likely this will see further delays). That said, it is premature to ascribe an exact valuation as guidance is still lacking in terms of capex and risks (only that the project meets Dialog's "high single-digit" IRRs). For the previous LTSA, Dialog incurred a RM1.6b EPCC cost for constructing a jetty (with three berths) and storage tanks, and the EPCC cost for the tanks was guided to be RM1,800/cbm. This cost surged to RM2,500-RM3,000/cbm as of 2023. Moreover, this expansion also requires an additional five berths.
- **...but believe upside will be moderate until project certainty by 1H26.** Taking all factors into consideration (including our comment in the Risk section), we are positive that a non-Petronas storage expansion is finally materialising, but the catch is that EPCC works can only begin from May 26 at the earliest (or six months from this LTSA) once conditions are met, a key one being BP Singapore's confirmation that it is satisfied with due diligence over the terminal assets and all required permits and licenses are secured. This, in our view, appears to be more stringent, vs Dialog Terminals Langsat (with green fuel offtaker like Ecoceres) which obtained its certificate right at the operational commencement date (rather than prior to construction).

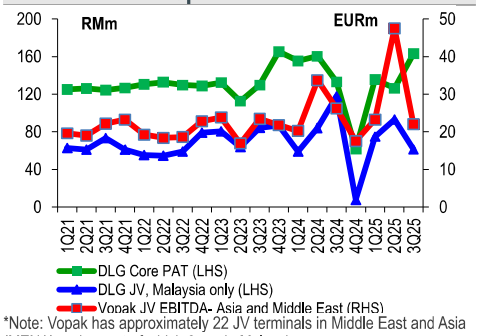
Valuation/Recommendation

- **Maintain BUY, with a higher target price of RM2.58 (from RM2.50).** Although low oil prices will continue to suppress profits from upstream operations, we see earnings recovery for downstream operations, and storage expansion catalysts are now materialising. We think Dialog's execution (on storage expansion in the medium term, and upstream on the long term) amid volatile business conditions remains paramount.

Earnings Revision/Risk

- **2026-28 earnings upgraded by 5%/4%/12%.** We reduced costs slightly (which raised EBITDA forecasts by 3%) given the absence of legacy EPCC losses, and updated our JV/associate data from the latest Annual Report.
- **Risks for the storage expansion.** We see potential competition rising in the region, ie a proposed joint development by Singapore and Indonesia on the Batam, Bintan and Karimun region; and closer to home, the full sanction of the Johor royalty-linked Maharani Energy Gateway. The latter's masterplan envisioned over 10m cbm of storage capacity. While we are not privy to all the conditions in BP's LTSA, we are not ruling out the possibility that BP prefers to keep its options open, regardless of its commitments on existing LTSA.

A Snapshot of Dialog's JV profits vs EBITDA From Vopak's MENA* JV Terminals



*Note: Vopak has approximately 22 JV terminals in Middle East and Asia (MENA) region. out of which 3 are in Malaysia.
** Note: Vopak's disclosure is EBITDA on gross (100% stake) basis. For 2Q25 (or 4QFY25 for Dialog), Vopak identified EUR21.7m exceptional gain, being the final compensation representing commercial resolution for PT2SB

Source: Dialog, Royal Vopak 3Q25 Results Presentation

JV/Associate Profit And Forecasts

RMm	FY23	FY24	FY25	FY26F	FY27F
JV/associate line					
Pengerang Phase 1, JV	91.2	95.5	102.9	99.5	96.5
Pengerang 2, JV	72.6	87.0	87.2	87.5	117.5
Other JV and POEC	72.6	59.7	64.7	78.2	83.2
Others	127.6	67.7	38.3	57.6	80.1
Total	**364.0**	**309.9**	**293.2**	**322.8**	**377.2**

Source: Dialog Integrated Reports, UOB Kay Hian Estimates

Potential Licenses That Are Key For Conditional LTSA To Proceed

i) According to Dialog's website, amongst its business units, DTP5 holds two internationally recognized standards being
a) **ISO 14001:2015** - Environmental Management System;
b) ISO 45001:2018 - Occupational Health and Safety Management System;
However, DTP5 does not hold this standard:
c) **ISO 9001:2015** - Quality Management Systems

ii) For biofuels, Dialog may potentially require a certification from the **International Sustainability and Carbon Certification (ISCC)** based on the Renewable Energy Directive II.

We see a low risk for Dialog to fail to obtain the required certificates. We note business units, Dialog Terminals Langsat (DTL) 1 and 3, already holds all the above certifications.

For Biofuels, DTL1 and DTL3's ISCC certificate was valid for a year only from Feb 2025, the same time DTL3's commenced operations of renewable storage. It appears BP Singapore may be more stringent for requiring licenses to be obtained first prior to EPCC construction of the storage tanks.

Source: Dialog, Various

SOTP Valuation (FY26 Valuation)

Segments	Valuation	RM/share
Diluted shares	6.3b shares	
Core business	20x P/E on net profit, ex-associates	0.77
Kertih Terminal	400,000m³, 30% stake, WACC 9%	0.05
Tanjung Langsat 1 and 2	740,000 m³, 100% stake, WACC: 9%	0.27
Pengerang : Phase 1 and 2	PT2SB recovery offsetting PITSB's weakness	1.04
D35 PSC + Bayan OSC + POEC Thai	Assume O&G price of US$90-100/bbl, but higher WACC of 12%	0.10
Pengerang Phase 3/ potential expansion	Expansion potential for PLNG2 and Langsat, and a small likelihood for Phase 3 expansion	0.45
(-) Net debt	Including warrant proceed	(0.10)
SOTP		**2.58**
Implied P/E	+1SD of 10 year average	30.0
Implied P/B		3.2x

Source: UOB Kay Hian

Profit & Loss

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Net turnover	**2,502**	**2,158**	**2,171**	**2,302**
EBITDA	550	674	676	778
Deprec. & amort.	329	370	397	420
EBIT	220	305	279	358
Total other non-operating income	n.a.	n.a.	n.a.	n.a.
Associate contributions	293	319	382	253
Net interest income/(expense)	(49)	(50)	(54)	(61)
Pre-tax profit	**376**	**574**	**606**	**549**
Tax	(66)	(40)	(42)	(38)
Minorities	(6)	(15)	(22)	(20)
Net profit	**304**	**518**	**542**	**491**

Balance Sheet

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Fixed assets	2,644	2,862	3,074	3,253
Other LT assets	2,522	2,822	3,122	3,375
Cash/ST investment	1,670	1,755	1,884	2,032
Other current assets	483	417	419	445
Total assets	**8,687**	**8,886**	**9,438**	**10,105**
ST debt	861	1,175	1,323	1,482
Other current liabilities	809	739	758	781
LT debt	861	1,175	1,323	1,482
Other LT liabilities	21	21	21	21
Shareholders' equity	5,741	6,052	6,377	6,672
Minority interest	502	524	520	638

Cash Flow

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Operating	**1,187**	**1,342**	**1,260**	**1,383**
Pre-tax profit	376	574	606	549606
Tax	(80)	(40)	(42)	(42)
Deprec. & amort.	329	370	397	397
Working capital changes	273	20	15	(4)
Other operating cashflows	119	120	124	131
Investing	**(479)**	**(800)**	**(800)**	**(753)**
Capex (growth)	(118)	(250)	(250)	(250)
Investments	(359)	(300)	(300)	(253)
Others	(2)	(250)	(250)	(250)
Financing	**(418)**	**(157)**	**(171)**	**(157)**
Proceeds from borrowings	(76)	250	250	250
Loan repayment	(49)	(50)	(54)	(61)
Others/interest paid	(293)	(357)	(367)	(347)
Net cash inflow (outflow)	**120**	**86**	**129**	**148**
Beginning cash & cash equivalent	**1,572**	**1,669**	**1,755**	**1,884**
Changes due to forex impact	(22)	0	0	0

Year to 30 Jun (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	22.0	31.2	31.1	33.8
Pre-tax margin	15.0	26.6	27.9	23.9
Net margin	12.1	24.0	24.9	21.3
ROA	4.7	8.0	8.0	6.9
ROE	11.2	12.2	12.3	10.8
Growth				
Turnover	(1.3)	(14.9)	(14.4)	(9.2)
EBITDA	56.3	91.8	92.3	121.3
Pre-tax profit	1.9	55.6	64.4	49.0
Net profit	3.0	75.6	83.6	66.6
Net profit (adj.)	57.9	79.4	87.5	70.1
EPS	57.9	79.4	87.5	70.1
Leverage				
Debt to total capital	25.4	25.9	27.7	29.3
Debt to equity	27.6	28.1	30.0	32.1
Net debt/(cash) to equity	-	-	0.5	1.7
Interest cover (x)	11.3	13.5	12.5	12.8

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